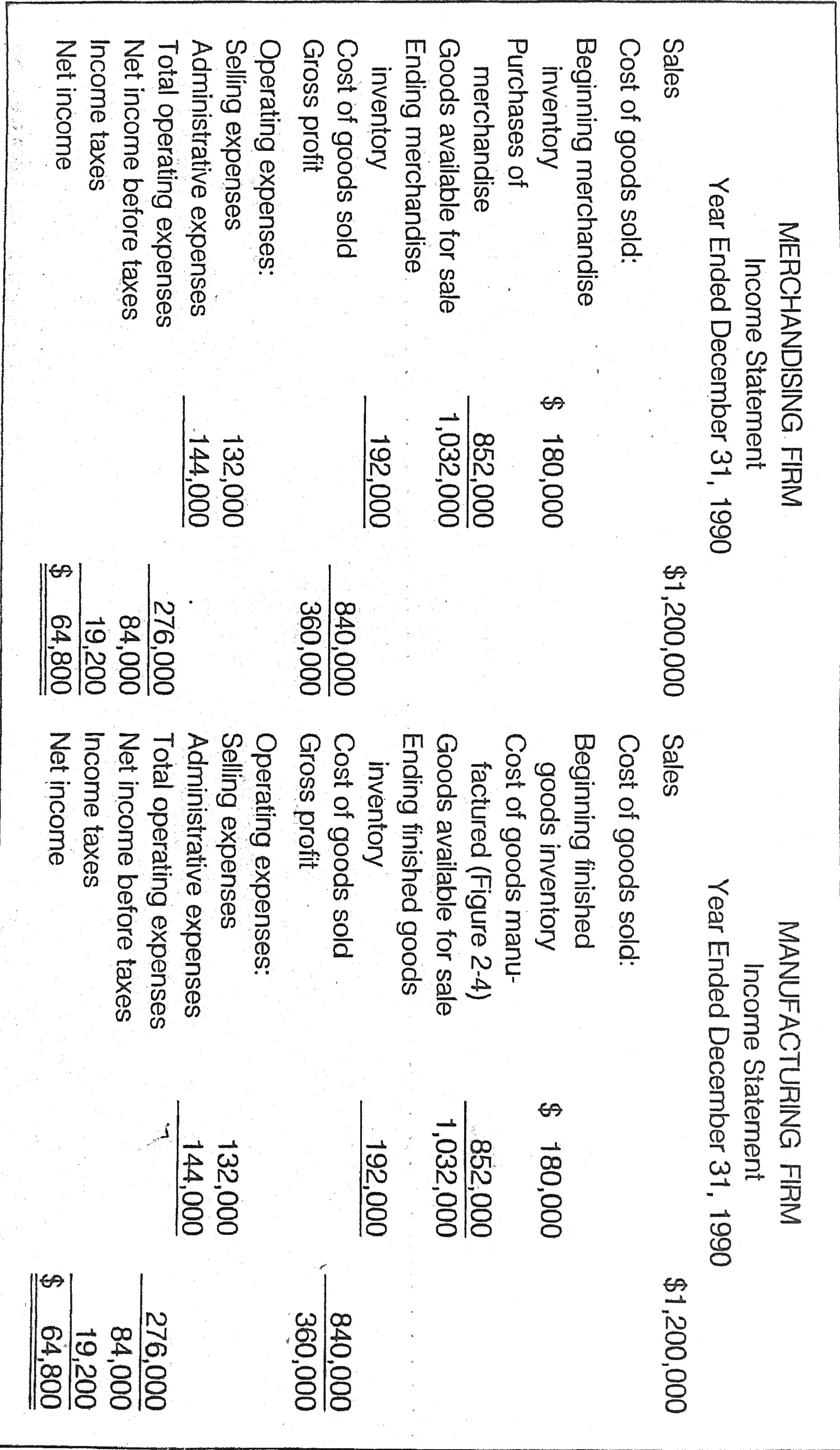
**Cost of Goods Sold Section for Manufacturing Income Statement vs. Cost of Goods Sold Section for Merchandising Income Statement**



Below are the two different Cost of Goods Sold sections on the income statement. The first is for a merchandising business, the second is for a manufacturing business. Note the differences in the box at the bottom of the page.

What are the differences in the Cost of Goods Sold Section?

An income statement reflects your small-business earnings and shows all the expenses incurred in generating that income. If your small business is a manufacturing company, you will show different categories of expenses than you would for a merchandising company. Learn how to show your cost of goods sold on an income statement for both types of companies.

**Earnings**

The method for reporting earnings is the same for merchandisers and manufacturers. Each type of company has sales and the total of these sales is the earnings figure. This figure does not reflect cost-of-goods expenses.

**Cost of Goods for Merchandisers**

Merchandisers buy goods and resell them. The cost of those goods must be subtracted from the earnings figure. The method for calculating this figure is to add inventory on hand at the beginning of the accounting period to inventory purchased during the accounting period. Subtract the inventory on hand at the end of the period, and subtract any freight charges. This is the cost-of-goods figure for a merchandiser. The merchandiser's income statement will show gross revenues minus this cost-of-goods number.

**Cost of Goods for Manufacturers**

Manufacturers break the cost of goods into categories. Raw materials expenses make up the first category of manufacturing expenses. This cost covers any components, parts or materials required to make the company’s product. The manufacturer must also inventory goods-in-progress. These are partially manufactured products that could not be finished before the end of the accounting period. In addition, manufacturers must count finished products that are available for sale. Manufacturers also count the cost of manufacturing labor and factory overhead in determining expenses that are related to the cost of goods. This is quite different from merchandisers who do not include labor in cost-of-goods figures. Manufacturers do not count freight as an expense in the manufacturing process, because freight is usually paid for by the merchandiser.

**The Cost of Goods Sold Calculations**

For a merchandising company the formulas was as followed:

**Beginning Merchandise Inventory + Purchase of Merchandise – Ending Merchandise Inventory = COGS**

For a manufacturing company the formula is as follows:

**Beginning Finished Goods Inventory + Costs of Goods Manufactures – Ending Finished Goods Inventory = COGS**